

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company
Docket No: DTE 05-67

RECORD REQUEST

DTE-RR-1

Referring to Response DTE 1-6, provide an overview of the items that are included in the Transition Costs Deferral of \$24,909,078. Also identify any items that are supported by short-term debt, as opposed to permanent capital.

Response:

The Transition Cost Deferral records the difference between revenues collected under the Transition Charge (formerly known as the Access Charge) and the amortization of stranded assets pursuant to FG&E's implementation of its Restructuring Plan ("Plan")¹ under the Massachusetts Electric Utility Restructuring Act of 1997 ("Restructuring Act.").

As discussed in DTE 1-12, the deferral exists because the Restructuring Act required an inflation-adjusted rate cap which limited revenues from the Transition Charge in the early years, resulting in under-funding of the costs associated with the stranded assets as set forth in the Plan. As of August 31, 2005, this deferral was equal to \$24,909,078, and is expected to be collected in rates over the next 6-8 years.

According to the methodology approved by the Department for FG&E, which is similar – and in many respects identical – to the methodology used by the majority of electric distribution companies across the state, the Transition Charge is comprised of a Fixed Component and a Variable Component.

The Transition Charge Fixed Component is the portion of Transition Cost recovery assigned to stranded costs associated with generation assets and generation-related regulatory assets. The generation assets include New Haven Harbor, Millstone 3, Wyman 4 and Gas Turbine #7. The Fixed Component recovers the remaining net book value of generation plant balances and generation-related regulatory assets that were unrecovered or "stranded" as a result of restructuring. These costs are amortized over a 12-year period commencing on March 1, 1998, and continuing through December 31, 2009, with carrying charges adjusted for taxes. In addition, the Plan provides for a Residual Value Credit ("RVC") to account for the sale proceeds for the divestiture of generating units as an offset to the Transition Charge Fixed Component.

The Variable Component of FG&E's Transition Charge includes the above-market cost of long term purchase power, economic buyout payments, nuclear entitlement and decommissioning-related costs, and certain transmission wheeling and support charges

¹ Unital's Restructuring Plan was submitted and approved in D.T.E. 97-115, and subsequently modified by the Department's Order in D.T.E. 97-115/98-120, and more recently in D.T.E. 99-110 and D.T.E. 01-103.

associated with Unitil's entitlements in generation assets, as well as other generation-related costs and expenses. The above-market cost associated with FG&E's long-term power purchase agreements constitutes the largest cost in proportion to the total Variable Cost for the period prior to the divestiture of FG&E's power supply portfolio to Select Energy (March 1, 1998 – February 1, 2000). Following the divestiture to Select Energy in February 1, 2000, the greatest cost items that remain in the Variable Component are the economic buyout payments ("retained entitlement obligation") FG&E pays to Select Energy under the terms of the buyout agreement.

A full reconciliation of the Transition Charge is submitted annually to the Department, most recently in D.T.E. 04-108, filed November 24, 2004. A Summary of the Transition Charge Calculation from D.T.E. 04-108, including the actual and forecasted Cumulative Deferral Including Interest, is shown on Attachment 1 to this Response. The Transition Cost Deferral of \$24,909,078 is the actual balance of the Cumulative Deferral Including Interest at August 31, 2005. FG&E's next annual reconciliation filing will be submitted to the Department prior to December 1, 2005.

It is not possible to directly trace the sources of funding for particular expenditures at any one point in time. FG&E's cash requirements for all corporate purposes, including construction expenditures and working capital requirements, are considered in total without regard to origin as the required funding resources are acquired. Funding is derived from permanent capital, changes in working capital and short-term external borrowings. It is not possible, therefore, to match the transition cost deferral dollars with a corresponding source of funding.

Since FG&E's last Note financing in October 2003, the Company added approximately \$19.8 million in capital additions for utility plant (November 1, 2003 through August 31, 2005, as shown on Schedule C of Mr. Kershaw's prefiled testimony) accompanied by working capital requirements, including Deferred Restructuring Costs at August 31, 2005 of \$30.0 million, composed of \$2.1 million for Deferred Standard Offer Service, 0.6 million for Default Service Reconciliation, \$2.4 Deferred Default Service and \$24.9 million of Transition Costs Deferral. FG&E's Notes Payable at August 31, 2005 were \$25.9 million.

Person Responsible: Charles J. Kershaw, Jr.

Fitchburg Gas and Electric Light Company d/b/a Unitil
Transition Charge Calculation

\$ in Thousands

Year	kWh Delivered (1)	Transition Charge Billed (2)	Transition Revenues for Delivered kWh (3)	Fixed Component (4)	Variable Component (5)	Total Costs to be Recovered (6)	Current Year Deferral (7)	Prior Year Deferral Balance (8)	Computed Interest (9)	Cumulative Deferral Including Interest (10)
Actual										
1998*	403,021	2.18	\$8,785	\$1,550	\$7,505	\$9,054	\$269	\$0	\$23	\$292
1999	502,171	1.44	7,227	1,959	8,257	10,216	2,989	292	192	3,474
2000	470,379	1.27	5,968	1,688	8,275	9,942	3,974	3,474	706	8,154
2001	455,969	1.69	7,707	1,483	8,356	9,839	2,132	8,154	1,207	11,492
2002	488,462	1.79	8,730	1,376	7,095	8,471	(259)	11,492	1,515	12,748
2003	506,123	1.18	5,947	1,180	7,161	8,341	2,394	12,748	1,309	16,451
Forecast										
2004	526,889	0.92	4,868	1,096	7,182	8,278	3,410	16,451	1,710	21,571
2005	545,736	0.99	5,392	1,012	7,267	8,280	2,887	21,571	2,170	26,629
2006	556,651	2.42	13,471	929	7,416	8,345	(5,126)	26,629	2,179	23,682
2007	567,784	2.42	13,740	846	7,564	8,411	(5,330)	23,682	1,903	20,254
2008	579,139	2.42	14,015	767	8,145	8,912	(5,104)	20,254	1,603	16,753
2009	590,722	2.42	14,295	688	8,376	9,063	(5,232)	16,753	1,280	12,801
2010	602,537	2.42	14,581		8,519	8,519	(6,062)	12,801	884	7,623
2011	614,587	2.42	14,873		8,682	8,682	(6,191)	7,623	410	1,842
2012	626,879	1.61	10,093		8,227	8,227	(1,866)	1,842	82	58
2013	639,417	0.08	512		457	457	(55)	58	3	6
2014	652,205	0.08	490		484	484	(7)	6	0	0
				\$14,553	\$118,967	\$133,520			\$17,176	

Column Notes:

- (1) Actual deliveries for 1998 - 2003. Year 2004 = 9 months actual + 3 months forecast. Year 2005 is the current sales forecast. For 2006 and beyond, a 2% growth rate is assumed.
- (2) Years 1998 - 2005 = (Column (3) / Column (1)) * 100. Beginning in 2006, the Transition Charge Cap of 2.42¢ applies for the full year, and the rate is set at the lower of the cap or the amount to fully recover the deferred balance.
- (3) Actual revenues for 1998 - 2003. Year 2004 = 9 months actual + 3 months forecast. Year 2005 is the Transition Cost revenue forecast. Year 2005 and beyond = (Column (1) * Column (2)) / 100.
- (4) Page 2, Column (5)
- (5) Page 3, Column (8)
- (6) Column (4) + Column (5)
- (7) Column (6) - Column (3)
- (8) Column (10), Prior Year
- (9) Years 1998 - 2002 = Computed Interest from monthly Transition Model using 12.45% carrying charge. Years 2003 and beyond are calculated using a 9.05% carrying charge per the DTE 01-103 Settlement Agreement.
- (10) Column (7) + Column (8) + Column (9)

-3/1/98 - 12/31/98